

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-10 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15
STR-07 ITC-01 TRSE-00 USIA-06 SP-02 SOE-02 OMB-01
DOE-15 /118 W

-----106298 231808Z /53

P R 231750Z MAR 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 4522
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
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AMEMBASSY TOKYO

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E.O.11652: N/A
TAGS: EIND, ETRD, UK
SUBJECT: STEEL: NEW GOVERNMENT STRATEGY FOR BSC

REF: (A) '77 LONDON 18595; (B) LONDON 2362

SUMMARY. THE GOVERNMENT'S LONG-AWAITED PLANS FOR COPING
WITH THE PROBLEMS OF THE BRITISH STEEL CORPORATION WERE
OUTLINED MARCH 22 IN A WHITE PAPER. THE MAIN ELEMENTS
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ARE A ONE BILLION POUND CUT IN BSC'S PLANNED INVESTMENT
IN NEW CAPACITY, MAINTENANCE OF PRESENT OVERALL PRODUC-
TION CAPACITY BY FINISHING NEW PLANTS NEAR COMPLETION
AND CLOSING OLD PLANTS, BROAD AUTHORITY TO NEGOTIATE
PLANT CLOSURES, AND FURTHER INJECTIONS OF GOVERNMENT CAP-
ITAL. NO CAPITAL WRITE-OFFS OR DIRECT GOVERNMENT GRANTS
ARE PROPOSED, AT LEAST FOR NOW. LITTLE REFERENCE IS MADE

TO INTERNATIONAL ASPECTS OF STEEL OVER-CAPACITY AND THERE IS NO MENTION OF PLANNED LEVELS OF EXPORTS, EITHER GLOBALLY OR TO THE U.S. END SUMMARY.

1. IN A WHITE PAPER PUT BEFORE THE HOUSE OF COMMONS, THE GOVERNMENT UNVEILED ITS PLANS TO GET BSC "BACK ON THE ROAD TO FINANCIAL VIABILITY." THE STATED OBJECTIVE IS AN "EFFICIENT, COMPETITIVE, AND PROFITABLE BRITISH STEEL INDUSTRY IN THE 1980'S, ABLE TO TAKE ADVANTAGE OF THE EXPECTED UPTURN IN WORLD ECONOMIC ACTIVITY."

2. BSC AND THE GOVERNMENT ARE FORMALLY ABANDONING THE POLICY OF A NET EXPANSION OF PRODUCTIVE CAPACITY ON WHICH THE CORPORATION'S PLANNING HAS BEEN BASED FOR THE PAST TEN YEARS (SEE REF A). BSC'S TOTAL STEEL-MAKING CAPACITY WILL BE HELD TO THE PRESENT LEVEL OF APPROXIMATELY 26 MILLION LIQUID TONS PER YEAR, WITH EMPHASIS BEING PLACED ON INCREASED EFFICIENCY AND PROFITABILITY. IN ORDER TO ACCOMPLISH THIS AND REDUCE BSC'S MAJOR FINANCIAL DRAIN ON GOVERNMENT FUNDS, THE FIRST STEP WILL BE A CUT IN PLANNED INVESTMENT IN NEW PLANT CAPACITY FROM TWO TO ONE BILLION POUNDS STERLING DURING THE NEXT TWO FINANCIAL YEARS (1978-80).

3. THE LARGEST PROJECTS TO BE "DEFERRED INDEFINITELY" ARE THE 835 MILLION POUND DOUBLING OF CAPACITY AT PORT LIMITED OFFICIAL USE

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TALBOT, THE 250 MILLION POUND PLATE MILL AT TEESIDE, AND ARC FURNACES TO MODERNIZE PLANTS AT SHELTON, HUNTERSTON AND RAVENS CRAIG. MODERNIZATION AND EXPANSION PROJECTS ALREADY APPROACHING COMPLETION WILL BE ALLOWED TO GO AHEAD. THESE WILL ADD ANOTHER 5.5 MILLION TONS OF CAPACITY DURING THE NEXT TWO YEARS.

4. AT THE SAME TIME, HOWEVER, BSC PLANS TO CUT A CORRESPONDING AMOUNT OF CAPACITY BY CLOSING OLDER AND HIGH-COST PRODUCTION FACILITIES. IT IS IN THIS AREA THAT THE WHITE PAPER MARKS A SIGNIFICANT CHANGE IN GOVERNMENT POLICY. "THE GOVERNMENT WILL GIVE FULL, SUSTAINED AND PUBLIC SUPPORT TO THE BSC IN THEIR EFFORTS, INCLUDING STEPS TO ACHIEVE IMPROVED PRODUCTIVITY." IF BSC AND THE GOVERNMENT CAN MAKE IT STICK, THIS MEANS THE POLICY OF KEEPING OPEN INEFFICIENT PLANTS FOR SOCIAL AND POLITICAL REASONS WILL LARGELY COME TO AN END. BSC WOULD BE RELATIVELY FREE OF GOVERNMENT RESTRAINTS WHICH HAVE PREVENTED CLOSURE OF HIGH-COST FACILITIES IN THE PAST IN ORDER TO MAINTAIN EMPLOYMENT. THERE ARE INCREASING SIGNS THAT TRADE UNION LEADERS AND STEEL WORKERS ARE MORE WILLING TO ACCEPT RETRENCHMENT IF THE FINANCIAL TERMS ARE RIGHT. THE FEW SETTLEMENTS OF THIS TYPE THAT HAVE BEEN REACHED

THUS FAR HAVE BEEN VERY GENEROUS ONES FOR THE LAID-OFF WORKERS, BUT THE COST HAS BEEN SIGNIFICANTLY LESS THAN KEEPING OPEN FACILITIES WHICH RUN AT A CONSIDERABLE LOSS FOR EACH TON OF STEEL PRODUCED.

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5. ON FINANCIAL ISSUES THE GOVERNMENT HAS AVOIDED MAKING MAJOR DECISIONS, SAYING THESE WILL HAVE TO COME LATER BECAUSE THE PRESENT UNCERTAINTIES OF THE STEEL MARKET MAKE IT DIFFICULT TO DETERMINE WHAT THE VIABLE LONG-TERM CAPITAL STRUCTURE SHOULD BE. IN DOING THIS, THE GOVERNMENT HAS PUT OFF THE EXPECTED CAPITAL RECONSTRUCTION OF BSC WHICH NOW HAS APPROXIMATELY A FOUR BILLION POUND DEBT IN NATIONAL LOAN FUND AND PUBLIC DIVIDEND CAPITAL. NO OUTRIGHT GRANTS OR CAPITAL WRITE-OFFS ARE MENTIONED IN THE WHITE PAPER. THE PAPER DOES NOTE THAT BSC WILL LOSE

JUST UNDER 500 MILLION POUNDS IN THE CURRENT FINANCIAL
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YEAR, '77-'78.

6. IN ORDER TO KEEP BSC GOING AND MEET ITS TEMPORARY
FINANCIAL REQUIREMENTS, NEW CAPITAL WILL BE PROVIDED BY
SUBSCRIPTION UNDER PROVISIONS OF SECTION 18(I) OF THE
1975 IRON AND STEEL ACT. THIS WILL REQUIRE LEGISLATION
TO INCREASE THE CORPORATION'S BORROWING LIMITS AND THE
WHITE PAPER SAYS "MORE DETAILED INFORMATION ABOUT FINAN-
CING BSC WILL BE MADE AVAILABLE AT THAT TIME."

7. THE GOVERNMENT'S HESITANCY IN COMING TO GRIPS WITH
BSC'S DEBT PROBLEMS IS APPARENTLY TWO-FOLD. DOMESTICAL-
LY, THE PRIME MINISTER WOULD CERTAINLY LIKE TO AVOID THE
SPECTACLE OF LARGE-SCALE CAPITAL WRITE-OFFS IN THE PERIOD
LEADING UP TO A GENERAL ELECTION. ON THE INTERNATIONAL
SIDE, THE UK GOVERNMENT REMAINS CONCERNED ABOUT U.S.
CHARGES OF GOVERNMENT SUBSIDIZATION AND POSSIBLE COUNTER-
VAILING DUTIES.

8. THE WHITE PAPER CONTAINS LITTLE INFORMATION ON THE
INTERNATIONAL ASPECTS OF THE STEEL PROBLEM EXCEPT TO NOTE
THE INCREASE IN MODERN CAPACITY IN MANY COUNTRIES AND THE
WORLD SLOW-DOWN IN STEEL USE AS CONTRIBUTING FACTORS TO
BSC'S DIFFICULTIES. THERE IS NO REFERENCE, AS THERE WAS
IN EARLIER GOVERNMENT PAPERS, TO SPECIFIC BSC OBJECTIVES
IN THE EXPORT MARKET.

9. COPIES OF THE COMPLETE WHITE PAPER BEING POUCHED TO
DEPARTMENT (EB/OT) AND USEC.

STREATOR

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, STEEL, PROGRAMS (PROJECTS)
Control Number: n/a
Copy: SINGLE
Draft Date: 23 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LONDON04743
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780128-0771
Format: TEL
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780333/aaaabbgx.tel
Line Count: 207
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 03341fbf-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 LONDON 2362
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3227248
Secure: OPEN
Status: NATIVE
Subject: STEEL: NEW GOVERNMENT STRATEGY FOR BSC
TAGS: EIND, ETRD, UK
To: STATE USEEC MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/03341fbf-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014